Docket:	:	A.09-07-001
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Jeffrey O' Donnell
DRA Project Mgr.	:	Patrick Hoglund

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN WILLOWS DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2011 and Escalation Years 2012 and 2013 Application 09-07-001

For authority to increase water rates located in its Willows District serving Willows and vicinity, Glenn County.

San Francisco, California
February 17, 2010

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report in California Water Service Company's ("CWS") rate case proceeding A.09-07-001. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $899,600 or 58.4 % in Test year 2011; by $708,500 or 38.2% in Escalation year 2012; and by $708,500 or 27.6% in Escalation year 2013 in its Willows District service area. The applicant requests adoption of a rate of return of 8.58% from D. 09-05-019. DRA presents its analysis and recommendations associated with the Applicant's request in this Report.

Patrick Hoglund serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. Appendix A contains witnesses' prepared qualifications and testimony.

DRA's reports on payroll, conservation expenses and special requests are included under separate Reports.

DRA's Legal Counsels for this case are Selina Shek, Allison Brown, and Hien Vo.

EXECUTIVE SUMMARY

CWS requests increasing rates by 58.4% in Test Year 2011 and 38.2% in Escalation Year 2012, whereas DRA recommends an increase of 9.6% in Test Year 2011 and inflationary increases for the Escalation Years. To avoid rate shock among its customers, CWS requested to phase in the increase of 58.4%, resulting in an increase of 21.1% in the Test Year and defer some of the increase in the later years.

Key Recommendations

DRA recommends that CWS' requested rate of return of 8.58% be adopted in this proceeding.

DRA's recommendations are based on higher total sales (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7) and lower Ratebase (Chapter 9).

DRA addresses its recommended treatment of CWS' 30 Special Requests ("SR") in a separate report. That report discusses Special Request #13 regarding rate deferral, or phase in of rates for Willows district.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Patrick Hoglund
2	Water Consumption and Operating Revenues	Lisa Bilir Zachary Burt
3	Operations and Maintenance (except Payroll) Expenses	Raymond Yin
4	Administrative & General (except Payroll & Conservation) Expenses	Cleason Willis Jose Cabrera
5	Taxes Other Than Income	Jerry Oh
6	Income Taxes	Jerry Oh
7	Utility Plant in Service	Isaiah Larsen
8	Depreciation Reserve and Depreciation Expense	Isaiah Larsen
9	Ratebase N/G multiplier	Isaiah Larsen Richard Rauschmeier
10	Customer Service	Toni Canova
11	Rate Design	Lisa Bilir
12	Water Quality	Pat Ma
13	Step Rate Increase	Patrick Hoglund

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This Report sets forth DRA's analysis and recommendations for A. 09-07-001, CWS' general rate increase request for Test Year 2011 and Escalation Years 2012 and 2013.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for Test Year 2011 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

CWS requests the total revenues (with phase in) as follows:

Year	Amount of Increase	Percent
2011	$313,787	21.1%
2012	$381,798	20.6%
2013	$459,534	20.5%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2011	8.58%	10.2%
2012	8.58%	10.2%
2013	8.58%	10.2%

D. CONCLUSION

DRA recommends a revenue increase for the Test Year as follows (Escalation Years 2012 and 2013 are covered in Chapter 13):

Year	Amount of Increase	Percent
2011	$150,200	9.6%

D.07-12-055 authorized the last general rate increase for CWS in A. 06-07-024, resulting in a rate of return on rate base of 8.66% in 2008-2009. Present Rates in this report are based on Advice Letter No.1871, which became effective August 6, 2008 as authorized by D. 07-12-055.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2011 at present and the utility's proposed rates is shown below:

	RATE OF RETURN		
	DRA	CWS	Diff
Present Rates	3.69%	-0.96%	-4.65%
Proposed Rates	13.84%	8.58%	-5.26%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,562.1	1,541.2	(20.9)	-1.3%
Operating expenses:				
Operation & Maintenance	641.1	711.2	70.1	10.9%
Administrative & General	302.7	330.8	28.1	9.3%
G. O. Prorated Expense	255.8	344.7	88.9	34.8%
Dep'n & Amortization	190.6	256.5	65.9	34.6%
Taxes other than income	77.2	104.8	27.6	35.8%
State Corp. Franchise Tax	(2.5)	(47.3)	(44.7)	1763.8%
Federal Income Tax	27.3	(106.5)	(133.8)	-490.6%
Total operating exp.	1,492.2	1,594.1	101.9	6.8%
Net operating revenue	69.9	(52.9)	(122.8)	-175.6%
Rate base	1,897.3	5,495.8	3,598.5	189.7%
Return on rate base	3.69%	-0.96%	-4.65%	-126.1%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

	Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Operating revenues	1,879.4	2,426.2	546.8	29.1%
	Operating expenses:				
	Operation & Maintenance	642.8	715.7	73.0	11.4%
	Administrative & General	302.7	330.8	28.1	9.3%
	G. O. Prorated Expense	255.8	344.7	88.9	34.8%
	Dep'n & Amortization	190.6	256.5	65.9	34.6%
	Taxes other than income	82.9	120.7	37.8	45.6%
	State Corp. Franchise Tax	24.9	29.2	4.3	17.3%
	Federal Income Tax	117.3	157.1	39.8	34.0%
	Total operating exp.	1,616.9	1,954.7	337.8	20.9%
	Net operating revenue	262.5	471.5	209.0	79.6%
	Rate base	1,897.3	5,495.8	3,598.5	189.7%
1	Return on rate base	13.84%	8.58%	-5.26%	-38.0%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	1,562.1	1,712.3	150.2	9.6%
Operating expenses:				
Operation & Maintenance	641.1	641.9	0.8	0.1%
Administrative & General	302.7	302.7	0.0	0.0%
G. O. Prorated Expense	255.8	255.8	0.0	0.0%
Dep'n & Amortization	190.6	190.6	0.0	0.0%
Taxes other than income	77.2	77.2	0.0	0.0%
State Corp. Franchise Tax	(2.5)	10.7	13.2	-520.9%
Federal Income Tax	27.3	70.7	43.4	159.2%
Total operating exp.	1,492.2	1,549.5	57.4	3.8%
Net operating revenue	69.9	162.8	92.9	132.8%
Rate base	1,897.3	1,897.3	0.0	0.0%
1 Return on rate base	3.69%	8.58%	4.89%	132.8%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding the forecasted number of customers, water sales and operating revenues for CWS' Willows district. Willows had an average of 2,370 service connections in 2008; the Willows district includes the City of Willows and vicinity, in Glenn County. DRA reviewed CWS' data responses, testimony, application, and workpapers before formulating its own estimates.

B. SUMMARY OF RECOMMENDATIONS

DRA adhered to the methods outlined in the Rate Case Plan ("RCP") in DRA's analysis of sales forecast and revenues. Whereas, CWS' sales forecast method differed from the RCP. Appendix A to Chapter 2 for DRA's Bakersfield report provides a detailed explanation of DRA's sales forecast and revenue methods. The Commission should uphold the methods outlined in the RCP by adopting DRA's recommendations presented in this report.

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections. CWS proposes to forecast the number of customers using the four-year (2004-2007) average change in customers by customer class for the Business and Multifamily customer classes. CWS proposes the four-year average due to a large number of reclassifications occurring in 2008 in preparation for the implementation of the WRAM. CWS proposes to forecast the number of customers using the five-year (2004-2008) average change in customers by customer class for the Industrial, Public Authority and Other customer classes. For the Residential customer class, CWS proposes to add the proposed flat-to-meter conversion to the change in the number of residential customers in 2008.

DRA instead recommends adding the proposed flat-to-meter conversion to the four-year (2004-2007) average change in the number of customers for the entire residential class, including flat and metered residential customers. This accounts for the previous conversions of flat-to-metered customers and is consistent with the other customer classes. DRA proposes the use of the four-year (2004-2007) average change in customers for all other customer classes.

2) Metered Sales and Supply

The Commission should require CWS to use the method proposed by DRA for residential and business customers, in accordance with the RCP, going forward, and should also adopt DRA's estimates for metered sales and supply in this case. Table 2-1 at the end of this chapter illustrates DRA and CWS' proposed sales per average customer for each customer class. DRA uses the same general methodology as CWS to estimate multiple regression equations in accordance with the RCP and the "New Committee Method" ("NCM"). As is outlined in the NCM, rain, temperature and time are included in the regression model, where possible. The primary difference between DRA and CWS' forecasts are that CWS used the regression equations to calculate weather-adjusted recorded sales from 2008 and used this as its estimated sales for 2011. DRA used the regression equations to calculate forecasted sales for 2011 and 2012, based on the 30-year monthly average rain and temperature.

3) Operating Revenues

The Commission should adopt DRA's estimates for operating revenues. DRA uses the same method as CWS to calculate operating revenues, although DRA presents the operating revenues differently for illustrative purposes (see Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. for the complete explanation).

4) Unaccounted for Water

CWS assumes 8% unaccounted for water in Willows because the large number of flat rate customers makes it difficult to estimate unaccounted for water. CWS' assumption of 8% unaccounted for water is reasonable.

C. DISCUSSION

1) Average Active Service Connections

Customer growth is the forecasted growth of a customer base in a given area. CWS and DRA use customer growth to project revenues for 2011-2012. The RCP, adopted in D.07-05-062 requires the number of customers to be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs, in which case an adjustment to the five-year average may be made.[1] Table 2-2 and 2-3 at the end of this chapter summarize DRA and CWS' proposed average number of customers for each customer class in 2011 and 2012, respectively.

a. Residential

CWS forecasts average number of residential customers based upon the rate that CWS proposes to convert flat rate residential customers to metered customers (45 per year during 2009-2012) added to the change in the number of residential customers in 2008. CWS argues that the four-year average (2004-2007) change in the number of residential customers is more reflective of the current growth trend than the five-year average of the change in the number of customers, due to a customer reclassification in 2008 at the time CWS implemented the WRAM/MCBA decoupling mechanism. DRA recommends forecasting average number of residential customers using the proposed rate of converting flat rate residential customers to metered customers, added to the four-year average of the

[1] D.07-05-062, Appendix A: RCP, p. A-23, footnote 4.

change in the number of residential (flat and metered) customers (for 2004-2007),[2] excluding the anomalous year of 2008 when CWS reclassified customers. DRA assumes no new flat rate customers will be added to the flat rate residential customer class.

DRA's proposed method resulted in the following number of customers:

Table 2-a: Residential metered average number of customers

	CWS	DRA
2011	1,455	1,429
2012	1,523	1,487

For flat rate residential customers, DRA agrees with CWS' estimate of number of customers as follows.[3]

Table 2-b: Residential flat rate average number of customers

	CWS	DRA
2011	567	567
2012	522	522

b. Business, Multifamily, Public Authority, Industrial, and Other

For the Business and Multifamily customer classes, CWS proposes to forecast the number of customers using the four-year (2004-2007) average of the change in the number of customers by customer class. 2008 is excluded because the change in the number of customers was anomalous that year due to a large

[2] The RCP states that the number of customers should be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs (See Decision 07-05-062, Appendix A, pg. A-23, footnote 4).

[3] CWS did not used EOY numbers of customers in the "Average number of customers" column in Willows workpaper 4-B3, as it did in some of the other districts with flat rate residential customers. So, DRA did not need to correct for this.

number of customer reclassifications. For the Public Authority, Industrial, and Other customer classes, CWS proposes to forecast the number of customers using the five-year average of the change in the number of customers by customer class. However, because 2008 was an anomalous year in terms of customer reclassifications for all customer classes, DRA proposes to forecast the number of customers using the four-year (2004-2007) average of the change in the number of customers by customer class for all customer classes.

2) Metered Sales and Supply

Table 2-4 and 2-5 at the end of this chapter summarize DRA and CWS' proposed metered and flat rate sales in Willows for each customer class in 2011 and 2012, respectively.[4] DRA removed CWS' 1.5% conservation adjustment to consumption in 2012; the reasons for doing this are described in Appendix A to Chapter 2 of DRA's Bakersfield report, section A. 4.

a. Residential metered

CWS calculated sales forecasts by using the modified unconstrained regression model (including monthly temperature variables and rain but not time variable) to weather-adjust 2008 sales. DRA found poor statistical confidence for some of the monthly temperature variables in the modified unconstrained model, but found good statistical confidence for all estimated coefficients with the modified constrained model (including temperature and rain but not time), and proposes using that model to forecast sales. Workpaper Revenue-001 shows the regression model that DRA chose. The following table summarizes DRA and CWS' recommendations:

[4] If DRA's sales forecast combined with DRA's other recommendations leads to higher bill increases than CWS presented in its notices to customers, DRA recommends that the total bill increases should be capped at CWS' proposed levels.

Table 2-b: forecasted sales (ccf[5]/service)

	CWS	DRA	% difference
2011	215.4	217.1	0.8%
2012	212.2	217.1	2.3%

b. Business

DRA accepts CWS' use of the unconstrained model with the exception of the autoregressive term. However, DRA used the regression equation to forecast sales, while CWS used the regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows DRA's regression model. Table 2-c below summarizes DRA and CWS' recommendations for sales per service for business customers:

Table 2-c: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	440.5	468.3	6.3%
2012	433.9	468.3	7.9%

c. Multifamily

Multifamily customers accounted for 10.05%[6] of metered sales for the Willows district in 2008. As CWS notes, the number of customers in this customer class changed from 22 at the end of year ("EOY") 2007 to 33 at the EOY 2008. Because of this change in the number of customers, CWS proposes to use an amount somewhat lower than 2008 sales per customer (1,795.0 ccf/service[7]) to project future use. While it is possible that the new customers in this customer class use significantly less water per customer, the use of a single year of data when a lot of customer reclassifications were occurring could underestimate the

[5] 100 cubic feet

[6] Calculated from data in CWS' Table 4-C

[7] See "Willows_exp_July_2009" Workpaper 4-D1, cells L:27 thru L:29

sales in this class.[8] A substantial underestimate of the sales forecast could lead to rates that are too high and ultimately this customer class could overpay for water service because WRAM overcollections are distributed to all customer classes, not just to the customer classes that overpaid. DRA ruled out the use of the regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. There is not enough evidence to exclude the 2008 sales data, however, to address the possibility of underestimating sales for this customer class, while still taking 2008 reductions into account, DRA proposes to forecast sales using the five-year average of sales in this customer class (2,040.2 ccf/service). This recommendation leads to an overall difference between DRA and CWS of 13.7% for the multifamily customer class. Table 2-d below summarizes DRA and CWS' recommendations for sales per service for multifamily customers:

Table 2-d: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	1,795.0	2,040.2	13.7%
2012	1,768.1	2,040.2	15.4%

d. Public Authority

Public Authority customers in the Willows district accounted for 11.19%[9] of metered sales in 2008. CWS proposed using the unconstrained regression model, with four monthly temperature variables dropped and an autoregressive term added. CWS used this model to calculated sales forecasts by weather-adjusting 2008 sales. DRA ruled out the use of the regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. To conservatively estimate the sales for this class, DRA

[8] For example, if the customers were added to this customer class in August, and their sales only contributed to total sales for 4 months, while the average is calculated based on this number of customers for the entire year, this could underestimate sales per customer.

[9] Calculated from data in CWS' Table 4-C

recommends the use of the five-year average sales for the Public Authority customer class. Table 2-e below compares DRA and CWS' forecasted sales for the Public Authority customer class.

Table 2-e: forecasted sales (Kccf)[10]

	CWS	DRA	% difference
2011	55.5	61.2	10.3%
2012	54.7	61.2	12.0%

e. Other

DRA agrees with CWS' proposed method to use the four-year average sales for the Other customer class, since only four years of sales exist for this customer class.

3) Operating Revenue

Tables 2-6 and 2-7 at the end of this chapter summarize DRA and CWS' forecasted operating revenue at present rates in 2011, at CWS proposed rates in 2011 and at present rates in 2012, respectively. DRA removed CWS' 1.5% conservation adjustment to consumption in 2012; the reasons for doing this are described in Appendix A to Chapter 2 of DRA's Bakersfield report, section A. 4.

a. Residential metered

CWS calculates operating revenue for metered residential customers by (1) taking the sum of estimated quantity revenues calculated for each meter size, for each month and for each tier of the increasing block rate design based on three-year average sales patterns and (2) adding this to the estimated service charge revenues, calculated by taking the average number of customers each year and multiplying it by the service charge. CWS' method is outlined in detail in

[10] The numbers in Table 2-e differ from the numbers in Table 2-1 because Table 2-e illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

Appendix A of Chapter 2 in DRA's Bakersfield Report. DRA does not recommend any changes to this method.

b. Residential flat rate

CWS calculates operating revenue for flat rate residential customers using the estimated EOY number of customers for 2011 and 2012 multiplied by the flat rate, since the flat rate customers do not have tiered rates or other quantity rates. However, the appropriate number of customers to use to calculate operating revenues is the average number of customers, rather than the EOY number of customers. The Commission should adopt DRA's operating revenues because they are calculated using the average number of customers rather than the EOY number of customers.

c. Business, Multifamily, Public Authority, Industrial and Other

CWS calculates operating revenues for business, multifamily, public authority, industrial, and other customers by (1) taking the sum of estimated quantity revenues for each meter size, for each month based on three-year average sales patterns and (2) adding the quantity revenues to the estimated service charge revenues, calculated by multiplying the forecasted average number of customers by the meter charges. CWS's method is outlined in detail in Appendix A to Chapter 2 of DRA's Bakersfield Report. DRA does not recommend any changes to this method.

4) Unaccounted for Water

CWS has a significant percentage of un-metered connections in Willows and forecasts a conversion of 45 flat to metered services per year during 2009-2012. Despite this, there will be a substantial number of flat-rate residential customers through 2012. For this reason, an exact calculation of unaccounted for

water is not possible. For this general rate case, CWS assumes 8% unaccounted for water. DRA agrees with CWS' methodology and finds this figure reasonable.

D. CONCLUSION

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections.

2) Metered Sales and Supply

DRA recommends adherence to the RCP and NCM for forecasting metered sales and supply and recommends that the Commission adopt DRA's forecasted sales estimates and require CWS to use the method proposed by DRA for residential and business customers going forward.

3) Operating Revenues

DRA accepts CWS' method for calculating operating revenues, with the following modifications for illustrative purposes: for all customer classes, DRA used the present rates given by CWS at the time it filed the GRC application to illustrate Operating Revenues at Present Rates for 2011 and 2012. Also, DRA used the proposed rates from CWS' GRC application filed in July 2009 to calculate Operating Revenues at Proposed Rates. Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. provides a detailed explanation.

4) Unaccounted for Water

DRA does not oppose CWS's assumption of 8% unaccounted for water, given the large portion of flat rate customers in this district.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	217.1	215.4	(1.7)	-0.8%
Business	468.3	440.5	(27.8)	-6.3%
Multiple Family	2,040.2	1,795.0	(245.2)	-12.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	1,092.9	956.8	(136.0)	-12.4%
Other	390.0	390.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Res. Flat Rate	365.0	365.0	(0.0)	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	1,429	1,455	26	1.8%
Business	286	286	0	0.0%
Multiple Family	33	33	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	56	58	2	3.6%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,806	1,834	28	1.6%
Flat Rate Connections				
Residential Flat	567	567	0	0.0%
Private Fire Protection	22	22	0	0.0%
Public Fire Protection	8	8	0	0.0%
Total flat rate connections	597	597	0	0.0%
Total Active Connections				
Include Fire Protection	2,403	2,431	28	1.2%
Exclude Fire Protection	2,373	2,401	28	1.2%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	1,487	1,523	36	2.4%
Business	288	288	0	0.0%
Multiple Family	33	33	0	0.0%
Industrial	0	0	0	0.0%
Public Authority	57	60	3	5.3%
Other	2	2	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	1,867	1,906	39	2.1%
Flat Rate Connections				
Residential Flat	522	522	0	0.0%
Private Fire Protection	23	23	0	0.0%
Public Fire Protection	8	8	0	0.0%
Total flat rate connections	553	553	0	0.0%
Total Active Connections				
Include Fire Protection	2,420	2,459	39	1.6%
Exclude Fire Protection	2,389	2,428	39	1.6%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	310.3	313.4	3.1	1.0%
Business	133.9	126.0	(7.9)	-5.9%
Multiple Family	67.3	59.2	(8.1)	-12.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	61.2	55.5	(5.7)	-9.3%
Other	0.8	0.8	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	573.5	554.9	(18.6)	-3.2%
Flat Rate Sales				
Residential	206.9	206.9	(0.0)	0.0%
Unaccounted For Water 8.00%	67.9	66.2	(1.7)	-2.5%
Total delivered	848.3	828.1	(20.2)	-2.4%
Supply				
Company Wells	848.3	828.1	(20.2)	-2.4%
Total production	848.3	828.1	(20.2)	-2.4%

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	322.9	323.1	0.3	0.1%
Business	134.9	125.0	-9.9	-7.3%
Multiple Family	67.3	58.3	-9.0	-13.3%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	61.2	54.7	-6.5	-10.7%
Other	0.8	0.8	0.0	-1.5%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	587.1	561.9	(25.2)	-4.3%
Flat Rate Sales				
Residential	190.5	190.5	(0.0)	0.0%
Unaccounted For Water 8.00%	67.6	65.4	(2.2)	-3.3%
Total delivered	845.2	817.8	(27.4)	-3.2%
Supply				
Company Wells	845.2	817.8	(27.4)	-3.2%
Total production	845.2	817.8	(27.4)	-3.2%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	260.5	263.1	2.6	1.0%
Business	120.6	113.5	(7.1)	-5.9%
Multiple Family	60.6	53.4	(7.2)	-11.9%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	55.1	50.0	(5.1)	-9.3%
Other	0.6	0.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	497.4	480.5	(16.9)	-3.4%
Non-WRAM Revenues				
Service Charges	682.8	693.3	10.5	1.5%
Residential Flat	364.6	350.0	(14.6)	-4.0%
Private Fire Protection	9.8	9.8	0.0	0.0%
Public Fire Protection	3.5	3.5	0.0	0.0%
Other	4.0	4.0	0.0	0.0%
Total Flat Rate	1,064.7	1,060.7	-4.0	-0.4%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	1,562.1	1,541.2	(20.9)	-1.3%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	383.1	386.9	3.8	1.0%
Business	137.3	129.1	(8.2)	-6.0%
Multiple Family	69.0	60.7	(8.3)	-12.0%
Industrial	0.0	0.0	0.0	0.0%
Public Authority	62.7	56.9	(5.8)	-9.3%
Other	0.6	0.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	652.7	634.3	(18.4)	-2.8%
Non-WRAM Revenues				
Service Charges	769.4	780.9	11.5	1.5%
Residential Flat	438.8	421.3	(17.5)	-4.0%
Private Fire Protection	10.6	10.6	0.0	0.0%
Public Fire Protection	3.8	3.8	0.0	0.0%
Other	4.1	4.1	0.0	0.0%
Total Flat Rate	1226.7	1220.7	-6.0	-0.5%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	1,879.4	1,854.9	(24.5)	-1.3%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Operation and Maintenance ("O&M") expenses in the Willows District of California Water Service Company ("CWS") for Test Year 2011. Table 3-A shows a comparison of total expense estimates at present rates for Test Year.

Table 3-A: Comparison of Total O&M Expense Estimates

Test Year 2011			
Items	DRA	CWS	CWS Exceeds DRA
O&M Expenses	$641,100	$711,200	$70,100 or 10.9%

B. SUMMARY OF RECOMMENDATIONS

DRA's estimate for Total O&M expenses for Test Year 2011 is $641,100. CWS' Test Year 2011 estimate is $711,200. CWS' estimate exceeds DRA's by $70,100, or 10.9%. DRA recommends that the Commission adopts its O&M expense estimates.

C. DISCUSSION

DRA conducted an independent analysis of CWS' workpapers and methods of estimating O&M Expenses for Test Year 2011. CWS uses a five-year average of historical expenses adjusted for inflation as the basis for projecting Test Year 2011 with the exception of Purchased Power, Purchased Chemicals, Postage, Transportation, Source of Supply, and Contracted Maintenance.

DRA utilizes multiple regression analyses and other methods including last recorded year (2008) data adjusted for inflation and a five-year (2004-2008)

average of historical expenses adjusted for inflation to assess the reasonableness of CWS' estimates.

Both DRA and CWS apply the various escalation factors, published by the DRA Energy Cost of Service Branch ("ECOS"), dated May 31, 2009, to develop the level of expenses. Table 3-1 summarizes DRA's recommended O&M expenses and compares them to CWS' requests for Test Year 2011. Each expense item listed is discussed below.

1) OPERATION EXPENSES

(a) PURCHASED POWER

Purchased Power is the cost of electricity from Pacific Gas and Electric needed to operate a district, including the power used in pumping and delivering water. Estimating Purchased Power expenses is a function of (a) the estimated production and (b) the estimated cost per kilowatt hour ("KWH"), taking into account the historical ratios of electricity used to the amount of water pumped. Therefore, the cost of purchased power may vary with the changes in the estimates of either production, cost per KWH of electricity, or a combination of both.

CWS generally estimates cost per KWH using one of the following two methods – (1) if a linear regression analysis shows a strong relationship between cost per KWH and timing, CWS uses its linear regression forecast methodology of cost per KWH based on a two-year 12-month rolling average of actual cost per KWH for estimating Purchased Power expenses; otherwise, (2) CWS uses a two-year average of 12-month rolling averages of actual cost per KWH in estimating Purchased Power expenses.

Based on DRA's review of CWS' supporting workpapers, CWS' cost per KWH of $0.148040 was calculated using a two-year (2004-2005) average of 12-month rolling averages methodology. CWS' estimate of Purchased Power expense is $100,900 in Test Year 2011. Based on the review of CWS'

workpapers, DRA estimates the expenses for Purchased Power to be $103,400, resulting in $2,500 more than CWS' estimate. The difference between DRA and CWS estimates is due to differences in water production estimates. DRA recommends that the Commission adopt its estimate.

(b) PURCHASED CHEMICALS

CWS' estimate of Purchased Chemicals expenses is $7,100 in Test Year 2011 based on a four-year (2005-2008) average cost per unit of production adjusted for inflation and the estimated production. Based on the review of CWS' workpapers, DRA estimates the expenses for Purchased Chemicals to be $7,300, resulting in $200 more than CWS' estimate. The difference between DRA and CWS estimates is due to differences in water production estimates. DRA recommends that the Commission adopt its estimate.

(c) OPERATIONS PAYROLL

For Operations Payroll expenses please refer to the Payroll Report.

(d) POSTAGE

CWS' estimate of Postage expenses is $10,700 in Test Year 2011. CWS' postage cost is a function of (a) the 2008's unit cost per customer service or connection, (b) the estimated numbers of connection, and (c) a 4.8% increase in postal first-class rate that was effective May 11, 2009[11], plus inflation. DRA adjusts CWS' estimate by (1) reducing the postal rate increase from 4.80% to 3.17% in May 11, 2009, and (2) excluding the escalation factors from DRA's postage expense estimate. Since CWS primarily utilizes bulk rates (Classes A5, A6, A7, and A8) for its mailings, DRA computed the average bulk rate increase based on reviewing the bulk rates schedule. DRA concludes the average bulk rate increase is 3.17%, which is what DRA uses in its estimates. Also, as future postal

[11] According to CWS' General Report, dated July 1, 2009, p25, 'District Postage'

rate increases are unknown, an escalation factor should be excluded from the calculation. DRA's estimate of Postage expenses is $9,800 for the Test Year 2011, which is $900 less than CWS' estimate. DRA recommends that the Commission adopt its estimate.

(e) OPERATION TRANSPORTATION

According to last year's recorded data ratios, total Transportation expense includes three components: Operation, Maintenance, and Administration and General ("A&G").

CWS' estimate for total Transportation expense is $21,600 in Test Year 2011 based on the last recorded year (2008) adjusted for inflation. The total is broken down as $18,300, $3,300, and $0 for Operation, Maintenance, and A&G, respectively. CWS did not include any new vehicle expense in its Transportation expense estimates. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(f) UNCOLLECTIBLES

An estimate of Uncollectible expenses is a function of (a) the estimated total revenue and (b) a five-year average (when appropriate) of historical uncollectible rates. DRA agrees with CWS' methodology in estimating Uncollectible expenses. CWS' estimate for Uncollectible expenses is $7,800 in Test Year 2011 based on a five-year (2004-2008) average of uncollectible rate of 0.50815%. DRA's estimate for uncollectible expenses is $7,900, resulting in $100 more than CWS' estimate. The difference in estimated Uncollectible expenses between DRA and CWS is due to the differences in estimated revenue. DRA recommends that the Commission adopt its estimate.

(g) SOURCE OF SUPPLY

CWS' estimate of Source of Supply expenses is $1,400 in Test Year 2011 based on a two-year (2007-2008) average adjusted for inflation. DRA's estimate

of the Source of Supply expense is $500 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. Using a five-year average methodology would better reflect CWS' historical trends. Therefore, DRA recommends that the Commission adopt its estimate.

(h) PUMPING EXPENSES

Pumping expenses include the expenses of waste oil disposal, inspection of storage tanks related to pumping, testing and cleaning pumps and motors including supplies such as lubricants, fuses, gaskets, charts and the like, and power used for pumping.[12] CWS' estimate for Pumping expenses is $16,300 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(i) WATER TREATMENT

Water Treatment expenses include expenses for operating filter and treatment plants, chlorinating equipment, outside laboratory expenses, laboratory supplies, postage on water samples, water quality notices and advertisements, accrual for DPH fees including system inspections, water treatment operators' tests and certification costs, hazardous material disposal, and environmental handling and reporting.

For Water Treatment expenses, CWS' estimate is $11,700 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

[12] Per CWS' response to DRA data request, RYY-005, Question 5, dated October 19, 2009.

(j) TRANSMISSION AND DISTRIBUTION

Transmission and Distribution ("T&D") expenses include expenses incurred in operating distribution reservoirs and tanks, including cleaning and flushing, care of grounds, flushing of mains and services, potholing (digging to verify depth and location of pipelines), corrosion tests, fire flow tests, locating and operating valves and supplies necessary to operate the District's transmission and distribution system. For T&D expenses, CWS' estimate is $10,400 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(k) CUSTOMER ACCOUNTING

Customer Accounting expenses include all costs related to customer billing such as bill stock, envelopes, billing inserts (except for conservation), fees paid to collection agencies and pay stations, bank charges, alarm systems, telephone charges including meter reading communication lines, janitorial services for the commercial office, and other expenses related to billing customers. For Customer Accounting expenses, CWS' estimate is $37,100 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(l) CONSERVATION EXPENSES

For Conservation Expenses, please refer to the Conservation Expenses report.

2) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll Expenses, please refer to the Payroll report.

(b) MAINTENANCE TRANSPORTATION

For an estimate of Maintenance Transportation expense, please refer to Section (e) of this Chapter.

(c) STORES

CWS estimates Stores expenses to be $4,400 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) CONTRACTED MAINTENANCE

CWS' estimate for Contracted Maintenance expenses is $137,000 in Test Year 2011 based on the four-year (2005-2008) average adjusted for inflation.

DRA's estimate of Contracted Maintenance expense is $103,700 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. Using a five-year average methodology would better reflect CWS' historical trends. Therefore, DRA recommends that the Commission adopt its estimate.

For Year 2012, DRA allowed CWS' request for one well rehabilitation at a cost of $100,000, which will be amortized over three years.

D. CONCLUSION

DRA recommends that the Commission adopt its O&M expense estimates.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	1,562.1	1,541.2		
Uncollectible rate	0.50815%	0.50815%		
Uncollectibles	7.9	7.8	(0.1)	-1.3%
Operation Expenses				
Purchased Water	0.0	0.0	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	103.4	100.9	(2.5)	-2.4%
Purchased Chemicals	7.3	7.1	(0.2)	-2.7%
Payroll	214.8	248.0	33.2	15.5%
Postage	9.8	10.7	0.9	9.2%
Transportation	18.3	18.3	0.0	0.0%
Uncollectibles	7.9	7.8	(0.1)	-1.3%
Source of Supply	0.5	1.4	0.9	180.0%
Pumping	16.3	16.3	0.0	0.0%
Water Treatment	11.7	11.7	0.0	0.0%
Transmission & Distribution	10.4	10.4	0.0	0.0%
Customer Accounting	37.1	37.1	0.0	0.0%
Conservation	63.0	63.0	0.0	0.0%
Total Operation Expenses	500.5	532.7	32.2	6.4%
Maintenance Expenses				
Payroll	29.2	33.7	4.5	15.4%
Transportation	3.3	3.3	0.0	0.0%
Stores	4.4	4.4	0.0	0.0%
Contracted Maintenance	103.7	137.0	33.3	32.1%
Total Maintenance Expense	140.6	178.5	37.9	27.0%
Total O & M Expenses (incl uncoll)	641.1	711.2	70.1	10.9%
At proposed rates				
Operating Revenues	1,879.4	2,426.2		
Uncollectible rate	0.50815%	0.50815%		
Uncollectibles	9.6	12.3		
Total O & M Expenses (incl uncoll)	642.8	715.7	73.0	11.4%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's recommended expense levels for California Water Service Company's ("CWS") 2011 Test Year Administrative and General ("A&G") expenses for the Willows District.

The categories of A&G expenses cover general expenses including Payroll, Transportation Expenses, Rent, Administration Charges Transfer, Workers' Compensation, Nonspecific Expenses, Amortization of Limited Term Investments and Dues and Donations Adjustment. Table 4-1 presents a comparison of total expense estimates for Test Year 2011.

DRA analyzed CWS' exhibits, supporting workpapers, CWS' responses to DRA' data request, information provided in meetings, phone conversations, e-mails, and CWS' methods of estimating A&G expenses.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $302,700 for Test Year 2011. CWS' estimate for the same period is $330,800 or 9.3% more than DRA. DRA's estimated total for A&G expenses is $305,800 for 2012. CWS' estimate for the same time period is $337,600 or 10.4% more than DRA. The difference between the forecasted expense levels of DRA and CWS is the result of: 1) DRA's 2011 Test Year estimates of the various A&G activity expenses; 2) account by account adjustments; 3) different methodologies; and 4) the use of the May 2009 Energy Cost of Service Branch escalation factors memo to derive the estimates as discussed below.

C. DISCUSSION

1) Methodology

DRA conducted an independent analysis of CWS workpapers and methods of estimating the A&G expenses. DRA analyzed CWS' application and exhibits, supporting workpapers, CWS' data request responses, information provided in meetings, field trips to CWS site locations, telephone conversations and e-mails. In general, DRA uses a five-year (2004-2008) average to derive its A&G expense estimates where it had differences with CWS. DRA also removes unusual expenses recorded in certain years to arrive at a different total than CWS, in particular for Nonspecific Expenses. DRA applies its escalation factors to all A&G accounts.

2) Payroll

For A&G payroll expense, please refer to DRA's Payroll Report.

3) Employee Benefits

There were no methodical differences between DRA and CWS in calculating employee benefits. DRA's estimates for the accounts below are based on (1) total payroll dollars, and (2) total number of employees. CWS' estimates are also a function of these two factors. Per employee unit benefit costs were developed by Milliman[13] and are based on a variety of actuarial assumptions. The underlying assumptions, except for the escalation factors, were accepted by DRA. Any differences are, therefore, attributable to different escalation factors and differing estimates for total company payroll and total General Office and district employees for 2011 and 2012.

[13] Milliman is CWS' Pensions and Benefits actuarial consultants.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits:

	DRA		CWS	
	2011	**2012**	**2011**	**2012**
Total Account 795	$210.4	$211.8	$231.3	$235.2

All company benefits are accounted for in general operations and allocated to each of the districts using the four-factor method of allocation. In general benefit costs are a function of employee payroll dollars, and/or the number of employees. The following is a breakdown of the sub-accounts included in the total Account 795 Pensions and Benefits:

(a) **Account 7951-1 Retirement Savings Plan**.

CWS provides employees with a 401(k) program and matches 50% of employee contributions up to 8% of payroll or the statutory contribution limit, whichever is less. Therefore, CWS' maximum contribution is 4% of company payroll. However, not all employees participate in the program. Based on actual participation levels, CWS' matching contribution during the last five years, was approximately 3%. This rate was used by CWS to forecast the test year amount, and is in line (or comparable) to those offered by other California utilities.[14]

DRA estimated the test year contribution based on the five-year average contribution percentage of 3%, which was multiplied by DRA's estimate of total company payroll (in 2011 and 2012).

[14] The 3% rate is in line with the 401(k) plans offered by San Jose Water, PG&E, Southern California Edison, and Sempra Energy. See the Milliman analysis, CWS General Report, Tab 12.

(b) **Account 7951-2 Retirement Fund.**

CWS' pension funding estimate is based on an actuarial forecast from Milliman. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees to arrive at the test year's estimate. DRA and CWS' estimates differ because of different escalation factors and different estimates for total employees in the General Office and all districts.

The Milliman forecast is based on certain assumptions such as population growth, payroll changes, and salary adjustments. The Milliman forecast also assumes a long term rate on plan assets of 6.75%, and a discount rate of 5.75% for the years 2011 through 2013. CWS follows FASB[15] Statement of Financial Accounting Standards (SFAS) No. 87, as modified by SFAS 132 and SFAS 158.[16] CWS has followed SFAS 87 since it became effective in 1987. Prior to 1987, CWS pension costs equaled the cash contributions to the pension plan determined in accordance with ERISA.[17] The test year projections are based on Milliman's actuarial valuation as of January 1, 2009 for determining the Net Periodic Benefit Cost under SFAS 87. The underlying pension costs assumptions were accepted by DRA.

DRA was persuaded that CWS had taken appropriate steps to mitigate the ratepayer impact of Plan costs. Further, CWS undertook the following measures to avail itself of the benefits provided under (a) The Pension Protection Act of

[15] Financial Accounting Standards Board.
[16] CWS' response to DRA Data Request JRC-2, Q.7.
[17] Employment Retirement Income Security Act, or Federal law.

2006, (PPA) and (b) The Worker, Retiree and Employer Recovery Act (WRERA) of 2008:[18]

(i) CWS fully complied with PPA and WRERA. CWS modified the actuarial cost method for purposes of determining the minimum funding requirement to the Unit Credit method. CWS also adopted the use of the "3-segment" interest rates (for the 2008 minimum funding requirement) and the "full yield curve" (for the 2009 minimum funding requirement). The actuarial valuations for 2008 and 2009 have shown that the contributions by CWS will satisfy the minimum funding requirements as modified by PPA and WRERA.

(ii) In December 2008, CWS made an election to voluntarily reduce its carryover balance (i.e., pre-PPA credit balance) of $1,537,616 as of January 1, 2008 to $0, so that such amount could be included in its plan assets. This was done in order to improve the plan's funded percentages under PPA. In 2009, CWS elected to use the "full yield curve" to determine the funding target under PPA. This increased the plan's funded percentage for 2009.

(c) **Account 7952- Group Health Insurance.**

CWS administers its own (self-insured) employee health care plan. The cost of health insurance is based on actual claims experience and not outside premium payments. The plans include Medical, Dental and Vision care. Further, the plans are on the PPO model where employees are encouraged to use network health care providers in order to minimize costs. CWS' estimate is based on an actuarial forecast from Milliman and includes employee contributions of $125 per month. The Milliman forecast assumes that overall medical cost inflation will

[18] CWS' response to DRA Data Request JRC-2, Q.1.

continue to be 10% annually for the forecast period.[19] The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and different estimates for total employees in the General Office and all districts. The underlying forecast assumptions were accepted by DRA.

(d) **Account 7952-1 Retiree Group Health Insurance**.

CWS administers its own (self-insured) retiree health care plan. Therefore, costs for these plans are based on claims experience, not outside premium payments. The plans are on the PPO model, where employees are encouraged to use network providers in order to minimize costs. Further, retirees pay a monthly premium of $300 per person (a retiree and spouse pay $600 per month). This rate decreases to $144 per person when there is other coverage such as Medicare.

The retiree plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast from Milliman. The Milliman forecast assumes that overall medical cost inflation will continue to be 10% annually for the forecast period. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and estimates for total employees in the General Office and all districts. The underlying forecast assumptions, except for the escalation factors, were accepted by DRA.

[19] Dental and Vision care inflation is forecasted at 5% each for 2011 through 2013.

4) Transportation Expense

DRA addresses Transportation Expense in Chapter 3 Operations and Maintenance Expenses of this Report. There are no A&G Transportation expenses for this district.

5) Rent

CWS' has estimated rental expense of $10,300 for Test Year 2011 and $10,600 for 2012.[20] DRA has verified the information regarding the company's rental expense, and recommends adopting this estimate for CWS' Rent expense.

6) Administration Charges Transfer

Administration Charges Transfer represents credits for unregulated activity. CWS' estimate of $300 for Test Year 2011, and $300 for 2012, for Administration Charges Transferred based upon the last recorded year.[21] DRA reviewed CWS' workpapers and recommends adopting these estimates for Administration Charges Transferred.

7) Workers Compensation

CWS' estimate of $12,700 in Test Year 2011 and $12,700 in 2012 for Workers Compensation is based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[22] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has

[20] Refer to Report on the Results of Operation and Prepared Testimony for the Willows District, Chapter 6.
[21] Refer to CWS' Formal Application Workpapers for the Willows District, Table 6-B.
[22] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In D. 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this district. DRA believed the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts, escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011 and 2012 forecast of $12,700 and $12,700 respectively for the Willows District.

DRA recommends adopting its estimate for Workers Compensation for the Test Year for this district.

8) Nonspecific Expenses

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS Nonspecific Expenses estimates for the 2011 and 2012 Test Year of $15,400, and $15,800 respectively are based on a 5-year average. DRA reviewed all sub accounts within Nonspecific Expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccounts: Account 799500 – Miscellaneous General Expense by $4,800. DRA then escalated its five-year average using DRA's composite escalation factors to derive its Test Year 2011 forecast. DRA's estimates of $14,400 and $14,800 for Nonspecific Expenses for Test Year 2011 and 2012 respectively are lower than CWS' Nonspecific estimates. CWS' Nonspecific forecasts of $15,400 and $15,800 exceed DRA's estimates by $1,000 and $1,000, or 6.9%, and 6.8% respectively for Test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(a) Account 799500 - Miscellaneous General Expenses

DRA discovered expenditures in this account from 2004 through 2008 for Yoga for desk jockeys, Employee Celeb Day Expenses, Donation Free Swim Day, Free Swim Day, and a Retirement Gift for an employee. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removed them from DRA's estimate.

9) Amortization of Limited Term Investment

This expense pertains to the amortization of an intangible asset, such as capital planning studies. CWS' estimates $15,000 for Amortization of Limited Term Investment. CWS basis it's estimate on the general method for this expense

shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting CWS' Amortization of Limited Term Investment estimate for Test Year 2011 and 2012.

10) Dues and Donations Adjustment

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. CWS' estimate for Dues and Donations Adjustment is ($100). DRA has reviewed CWS' workpapers and recommends adopting CWS' estimate.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's A&G Expenses for the Willows District.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
~~At present rates~~				
Oper. Rev. less uncoll.	1,554.2	1,541.2		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	40.3	46.5	6.2	15.4%
Benefits	210.4	231.3	20.9	9.9%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	10.3	10.3	0.0	0.0%
Admin Charges Trsf	(0.3)	(0.3)	0.0	0.0%
Worker's Compensation	12.7	12.7	0.0	0.0%
Nonspecifics	14.4	15.4	1.0	6.9%
Amort of Limited Term Inv.	15.0	15.0	0.0	0.0%
Dues & Donations Adjustment	(0.1)	(0.1)	0.0	0.0%
Total A & G Expenses	302.7	330.8	28.1	9.3%
(incl. local Fran.)	302.7	330.8	28.1	9.3%
At proposed rates				
Oper. Rev. less uncoll.	1,869.8	2,426.2		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	302.7	330.8	28.1	9.3%
(incl. local Fran.)	302.7	330.8	28.1	9.3%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Taxes Other Than Income for the Willows District of California Water Service's (CWS) Test Year 2011 General Rate Case. The category of Taxes Other Than Income is comprised of ad valorem (property taxes), business license fees, local franchise fees, and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between CWS' and DRA's estimates for Taxes Other Than Income are primarily due to differences in revenue, plant and payroll estimates. The methodologies used by CWS in estimating future taxes and fees are detailed below. Anywhere DRA has made adjustments to improve the consistency or accuracy of estimates has also been noted below.

C. DISCUSSION

1) AD VALOREM TAXES

CWS estimates future ad valorem taxes using the actual ad valorem tax percentage from the last recorded year. This percentage is applied to the following year's estimated net total of utility property accounts.[23] The pro-forma ad valorem estimate is the arithmetic average of the two years. DRA accepts this methodology and notes that differences between CWS and DRA estimates are due to differences in estimations of future plant.

[23] Net Total of Property = plant + materials & supplies + construction work in progress + present value of advances – advances & contributions – deferred income tax

2) BUSINESS LICENSE and LOCAL FRANCHISE FEES

The Willows District pays a business license fee of 2% of revenue to the City of Willows. Based upon 2008 recorded taxable revenue, the business license fee for the district is 1.8% of district revenue. CWS applies this effective percentage to estimated future revenues. The Willows District does not pay a Franchise Tax. DRA accepts CWS' estimates for the business license fee and notes that any differences are the result of different estimates of future revenue.

3) PAYROLL TAXES

CWS estimates future payroll taxes using projected payroll amounts and the effective tax rates from the last recorded year. The three components of payroll taxes are Federal Insurance Contributions (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). All three components have statutory limits governing the maximum percentage that can be collected from employers (*see table, below*).

PAYROLL TAXES		2009 MAXIMUM	EXPLANATORY NOTES
FICA	Social Security Tax	6.2%	Social Security Tax is 6.2% applied to only the first $106,800 of an employee's salary.
	Medicare Tax	1.45%	
FUI Tax		0.8%	Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first $7,000 of employee wages ($56 per employee).
SUI Tax (CA)		6.3%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

DRA accepts the methodology utilized by CWS to estimate future payroll taxes for Willows and notes that any differences are the result of differences in the estimates of future payroll.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Taxes Other Than Income that are presented in Tables 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	26.6	51.1	24.5	92.1%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	22.5	26.0	3.5	15.6%
Business License (pres rates)	28.1	27.7	(0.4)	-1.4%
Business License (CWS prop rates)	33.8	43.6	9.8	29.0%
Taxes other than income (present rates)	77.2	104.8	27.6	35.8%
Taxes other than income (CWS proposed rates)	82.9	120.7	37.8	45.6%
State Tax Depreciation	294.9	454.6	159.7	54.2%
Transp. Dep. Adj.	(6.8)	(4.9)	1.9	-27.9%
State Tax Deduct(pres rates)	288.1	449.7	161.6	56.1%
State Tax Deduct (CWS prop rates)	288.1	449.7	161.6	56.1%
Fed. Tax Depreciation (pres rates)	181.6	279.9	98.3	54.2%
State Income Tax (pres. rates)	(2.5)	(47.3)	(44.7)	1763.8%
State Income Tax (CWS prop rates)	24.9	29.2	4.3	17.3%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	(7.8)	30.0	37.8	-482.4%
DPAD (CWS prop. Rates)	(33.3)	(44.5)	(11.2)	33.7%
Fed. Tax Deduct.(pres rates)	171.2	262.6	91.4	53.4%
Fed. Tax Deduct (CWS prop rates)	173.2	264.6	91.4	52.8%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Income Taxes for the Willows District of California Water Service (CWS) Test Year 2011 General Rate Case. In developing its recommendations, DRA reviewed the reports, workpapers, and data responses of CWS in conjunction with information obtained from the California Franchise Tax Board and the Internal Revenue Service.

B. SUMMARY OF RECOMMENDATIONS

The majority of the differences between CWS and DRA estimates of Income Taxes are attributable to differences in estimated revenue, expenses, and rate base. Anywhere DRA has made adjustments to the estimating methodology used by CWS is detailed below. The three areas in which DRA made adjustments to CWS calculations for Willows pertain to the: (1) federal deduction of the California Corporate Franchise Tax, (2) California Corporate Franchise Tax total percentage, and (3) calculation of the interest expense deduction.

C. DISCUSSION

1) DRA ADJUSTMENTS

(a) Federal Deduction of California Corporate Franchise Tax (CCFT)

D.89-11-058, issued in November of 1989, required that the prior year's CCFT be used as the deduction for calculation of test year federal income taxes. As discussed throughout the decision, companies at that time were required to pay estimated California taxes one year in advance.[24] D.89-11-058 corrected the

[24] California Revenue and Taxation Code, Part 11, Chapter 2, Article 2, Section 23151(f)(2)

timing difference between when companies had previously paid California taxes and when they had realized such payment as a deduction for federal income taxes.

Since 1989, the California Tax Code has changed so that corporations are no longer required to make estimated CCFT payments to the state one year in advance. In fact, California tax law now requires corporations to compute an estimated tax "upon the basis of the net income for that taxable year."[25] As such, DRA recommends using the current year's CCFT as a deduction in the current year's calculation of federal income taxes. Differing from D.89-11-058 yet more representative of current California tax practice, DRA's methodology provides a more accurate estimate of a utility's assumed tax consequences and revenue requirements. More importantly, consistent with long-standing regulatory tradition and Generally Accepted Accounting Procedures (GAAP), the DRA methodology more closely adheres to the fundamental "matching principle," where costs incurred in a given period should be matched against the revenue or benefits received in the same period.

(b) California Corporate Franchise Tax Total Percentage

Referencing D.84-05-036 yet failing to cite the specific ordering paragraph, section, or discussion, CWS added six-basis points to the CCFT percentage used to estimate state taxes for test year and escalation years. Through data requests, review of Commission decisions, and personal interviews, DRA attempted to find some justification for CWS' inclusion of an additional 0.06% in state tax estimates. Unable to substantiate the validity of this addition, DRA removed the percentage, which reduced CCFT estimates by 0.06%.

[25] Ibid

(c) Calculation of the Interest Expense Deduction

A formula error in CWS' workpapers for calculating the Interest Expense Deduction resulted in Working Cash being subtracted from Rate Base. DRA has corrected this error in the calculation of the deduction for Willows. The recommended Interest Expense Deduction now equals Rate Base (including working cash) multiplied by the current CWS weighted-average-cost-of-debt (3.16%).[26]

2) GENERAL INCOME TAX CALCULATIONS

In calculating income taxes, both DRA and CWS subtract common expenses from estimated revenue. For the calculation of state taxes, CWS has calculated tax depreciation amounts to reflect the required flow-through of deferred tax benefits, while federal tax depreciation amounts reflect the requirements of normalization. This methodology is consistent with the requirements of the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Income Taxes that have been calculated and presented in Tables 6-1 and 6-2.

[26] D.09-05-019: Base Year 2009 Cost of Capital for the three large multi-district Class A Water Utilities

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,562.1	1,541.2	(20.9)	-1.3%
Deductions:				
O & M expenses	641.1	711.2	70.1	10.9%
A & G expenses	302.7	330.8	28.1	9.3%
G. O. Prorated expenses	255.8	344.7	88.9	34.8%
Exclude GO Book Depreciation	(34.1)	(39.6)	(5.5)	16.1%
Taxes not on Income	77.2	104.8	27.6	35.8%
Transportation Deprec Adj	(6.8)	(4.9)	1.9	-27.9%
Interest	60.0	170.9	111.0	185.1%
Income before taxes	266.2	(76.8)	(343.0)	-128.8%
~~Calif. Corp. Franchise Tax~~				
State Tax Deductions	(294.9)	(454.6)	-159.7	54.2%
Taxable income for CCFT	(28.7)	(531.4)	(502.7)	1751.9%
CCFT Rate	8.84%	8.84%		
Additional Tax per D.84-05-036	0.0	(0.3)	(0.3)	0.0%
CCFT	(2.5)	(47.3)	(44.7)	1763.8%
~~Federal Income Tax~~				
Tax Depreciation	181.6	279.9	98.3	54.2%
State Corp Franch Tax	(2.5)	(23.5)	(21.0)	826.5%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	87.2	(333.2)	(420.3)	-482.2%
Domestic Prod. Activities Ded.	(7.8)	30.0	37.8	-482.4%
Adjusted Taxable Income	79.3	(303.2)	(382.5)	-482.2%
FIT Rate	35.00%	35.00%		
FIT	27.8	(106.1)	(133.9)	-482.2%
Investment Tax Credit	0.5	0.5	0.0	0.0%
Total FIT	27.3	(106.5)	(133.8)	-490.6%
Total FIT & CCFT	24.7	(153.8)	(178.5)	-721.9%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	1,879.4	2,426.2	546.8	29.1%
Deductions:				
O & M expenses	642.8	715.7	73.0	11.4%
A & G expenses	302.7	330.8	28.1	9.3%
G. O. Prorated expenses	255.8	344.7	88.9	34.8%
Exclude GO Book Depreciation	(34.1)	(39.6)	(5.5)	16.1%
Taxes not on Income	82.9	120.7	37.8	45.6%
Transportation Deprec Adj	(6.8)	(4.9)	1.9	-27.9%
Interest	60.0	170.9	111.0	185.1%
Income before taxes	576.2	787.8	211.6	36.7%
Calif. Corp. Franchise Tax				
State Tax Deductions	(294.9)	(454.6)	-159.7	54.2%
Taxable income for CCFT	281.3	333.2	51.9	18.5%
CCFT Rate	8.84%	8.84%		
Additonal Tax per D.84-05-036	0.0	(0.3)	(0.3)	0.0%
CCFT	24.9	29.2	4.3	17.3%
Federal Income Tax				
Tax Depreciation	181.6	279.9	98.3	54.2%
State Corp Franch Tax	24.9	13.4	-11.5	-46.1%
Pref Stock Dividend Credit	0.0	0.0	0.0	0.0%
Taxable income for FIT	369.8	494.5	124.8	33.7%
Domestic Prod. Activities Ded.	(33.3)	(44.5)	-11.2	33.7%
Adjusted Taxable Income	336.5	450.0	113.6	33.8%
FIT Rate	35.00%	35.00%		
FIT	117.8	157.5	39.7	33.8%
Investment Tax Credit	0.5	0.5	0.0	0.0%
Total FIT	117.3	157.1	39.8	34.0%
Total FIT & CCFT	142.1	186.3	44.1	31.1%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

Tables 7-1 and 7-2 at the end of this Chapter show DRA and CWS' estimates for the Willows District Plant in Service for Test Year 2011 and Escalation Year 2012.

DRA reviewed and analyzed CWS' testimony, application, Minimum Data Requirements, workpapers, capital project details, estimating methods, Urban Water Management Plan ("UWMP"), Water Supply & Facilities Master Plan ("WS&FMP"), and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA and CWS' estimates of specific plant additions are attributed to the items listed in Table 7-B.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that: 1) plant additions for one specific project in 2009 be approved with Advice Letter treatment; 2) plant additions for two specific projects in 2010 be disallowed or approved with Advice Letter treatment; 3) plant additions for three specific projects in 2011 be disallowed or approved with Advice Letter treatment; 4) plant additions for two specific projects in 2012 be disallowed or approved with Advice Letter treatment; 5) plant additions for CWS' main, service & hydrant replacement programs be adjusted to reflect DRA's estimates; 6) plant additions for carryover projects be adjusted to reflect DRA's estimates; and 7) plant additions for non-specifics in 2009 through 2012 be adjusted to reflect DRA's escalation factors. Based on these recommendations, DRA's estimates for the 2009, 2010, 2011 and 2012 plant additions are $448,900, $64,400, $144,000 and $103,200, respectively versus CWS' proposed amounts of

$1,728,700, $2,178,600, $800,100 and $1,148,600, respectively for the same years.

Table 7-A. Willows District

Company funded Plant Additions,
Including Carryovers and Non-Specifics
(Thousands of Dollars)

	2009	2010	2011	2012	AVG
DRA	$448.9	$64.4	$144.0	$103.2	$190.1
CWS	$1,728.7	$2,178.6	$800.1	$1,148.6	$1,464.0

Table 7-B. Specific Project Differences Comparison

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
2009	21199	Pumps	SCADA RTUs	$79,700	$79,700
2009	17808	Structures	Priority A Security Improvements	$23,100	$23,100
2009	17809	Structures	Priority B Security Improvements	$78,800	$78,800
2009		Meters	Small Meter Replacements	$3,800	$3,800
2009	17197	Meters	Conversion of Flat Rate Services to Metered	$62,900	Annual Tier 2 Advice Letter
2009	17745	Equipment	Replace Toyota Tundra	$35,700	$35,700
2010	20922	Meters	Conversion of Flat Rate Services to Metered	$33,400	Annual Tier 2 Advice Letter
2010	20679	Pumps	Replace Pump and Add Energy Monitoring - Sta. 7-01	$74,500	$0
2010		Meters	Small Meter Replacements	$4,000	$4,000

Budget Year	Project ID Number	Category	Project Description	CWS Proposed Budget	DRA Proposed Budget
2011	21141	Mains	I-5 Crossing - Design & Permit	$164,389	$0
2011	20876	Wells	Zone Test - Sta. 6-01	$73,028	$73,028
2011	20972	Meters	Conversion of Flat Rate Services to Metered	$33,400	Annual Tier 2 Advice Letter
2011		Meters	Small Meter Replacements	$4,100	$4,100
2011	20953	Wells	Zone Test Repair - Sta. 6-01	$179,800	Advice Letter
2012	21141	Mains	I-5 Crossing	$981,750	$0
2012	20987	Meters	Conversion of Flat Rate Services to Metered	$33,400	Annual Tier 2 Advice Letter
2012	20840	Equipment	Mobile Radio	$2,200	$2,200
2012	20840	Equipment	Sedan - Local Manager	$34,500	$34,500
2012		Meters	Small Meter Replacements	$3,200	$3,200

C. DISCUSSION

The Willows District has recorded $346,200 per year in average gross plant additions during the past five years (2004-2008).[27] During this same period, the Commission authorized $291,700 per year in gross capital additions for the Willows District that were included in rates.[28] Recorded gross plant additions

[27] Gross plant additions include Company funded plant additions as well as contributions and advance deposits for specific plant.

[28] Appendix B to this report, CWS response to DRA data request MD7-001.

have exceeded the Commission authorized gross plant addition budgets during 2004-2008 by a total of $272,600, which represents a 19% budgetary overrun of authorized additions for that period.[29] Because these additions have not been authorized (they are only mentioned once in a misleading sentence next to an unexplained table comparing authorized to recorded capital additions in Chapter 8 of the RO report) they escape reasonableness review while significantly increasing rates. The district's average gross plant addition request for the period of 2009-2012 is $1,638,000 per year, which represents a 373% increase over historical recorded plant additions and a 462% increase over historical authorized plant additions.

DRA issued multiple data requests investigating the significant mismatch between authorized and recorded capital additions for the last five years.[30] In its responses, CWS did not offer any meaningful explanation for the differences other than the fact that contributions and advances are estimated in authorized additions, while they derive from actual figures in recorded additions. DRA considers this level of recorded plant additions excessive, not compliant with previous Commission orders, and therefore recommends a systematic audit of recorded capital additions and authorized budgets in the subsequent GRC, as was ordered in D.03-09-021 for all future CWS general rate cases.[31] On page 54 of that Decision, it states:

[29] Appendix B to this report, CWS Response to MD7-001.

[30] Appendix B to this report, DRA data requests MD7-001 and NKS-007.

[31] According to CWS Response to DRA data request NKS-007, CWS does not believe it needs to comply with Order 3 of D.03-09-021 which states, "In all future general rate case applications, Cal Water shall present an initial showing with the major changes that led to the requested change identified and quantified. Each issue should include detailed explanations and justifications for the requested change, with cross-references to evidentiary support. All tables of data should be explained and analyzed. All necessary evidence should be included in the record."

"We will, therefore, require that Cal Water submit a report in each of its future district general rate case filings showing budgeted capital projects and actual expenditures. We expect these reports to compare the budgeted capital projects to actual expenditures, and to explain each deviation and deferral, with revised in-service dates for the deferrals. We will use this historic analysis to guide our evaluation of any proposed capital projects."

On a going-forward basis, DRA recommends $364,100 per year in average gross plant additions during 2009-2012.

1) Carryover Projects

CWS identifies $1,182,056 in 2009 and $1,445,900 in 2010 carryover projects, respectively, in its ratebase workpapers. In the Results of Operation report for the Willows District, CWS identifies a total of $398,000 in carryover projects. DRA was not able to reconcile the two estimates, even after it sent a clarifying data request to CWS.

Based upon the CWS response to DRA data request MD7-008 on all carryover projects, DRA estimated a carryover budget of $149,500 by subtracting advice letter projects from the carryover totals, since advice letter projects have uncertain costs and completion dates, and may not occur at all.[32]

Carryover projects 15433, 15436, and 15440 for a pumped storage facility and land was approved in the last GRC via advice letter with a cap of $1,366,100, applicable until the effective date of rates in this GRC, scheduled to be January 1, 2011.[33] CWS apparently plans to record $371,100 to plant in 2009 related to project 15440 for the purchase of land, and record $1,445,900 in 2010 to plant

[32] Advice letter projects are handled separately though a rate base offset.

[33] See settlement agreement to A.06-07-017. http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/76972.PDF

related to all three projects.[34] CWS is requesting a total of $1.817 million, which is 33% more than the advice letter cap. DRA does not agree with the cost overruns since CWS provided no justification or explanation for the overruns. During DRA's site visit, CWS informed DRA that Wal-Mart had signed an agreement to pay for half of the total cost of the pumped storage facility. However, according to legal documents CWS provided to DRA, Wal-Mart is merely advancing half the cost ($908,500 out of $1.817 million in total costs), leaving ratepayers ultimately financially responsible when the advance is refunded.[35] DRA does not recommend extending the deadline for this advice letter project or adopting any cost overruns in this rate case.

2) Main, Services and Hydrant Replacement Programs

CWS requests a total of $2.4 million for 2009-2012 in Company funded specific mains, service, and hydrant replacement projects as shown in Table 7-C below:

Table 7-C. Requested Mains, Streets, Services and Hydrants Replacement Costs[36]

	2009	2010	2011	2012	Totals
Mains	$160,000	$500,017	$362,593	$981,750	$2,004,359
Services	$64,102	$32,100	$61,981	$30,000	$188,183
Hydrants	$39,300	$52,035	$41,943	$23,800	$157,078
Non-Specific Mains, Services, Streets and Hydrants	$54,000	$55,200	$56,400	$57,600	**$223,200**
Total Specific	$263,402	$584,152	$466,516	$1,035,550	**$2,349,620**
Total including non-specific	$317,402	$639,352	$522,916	$1,093,150	**$2,572,820**

[34] CWS Willows District ratebase workapers, tab 8B2c-Carryover.

[35] Appendix B to this report, CWS response to DRA data request MD7-014, Question 2. The agreement between Wal-Mart and CWS was dated February 2009.

[36] Data from CWS Ratebase workpapers.

The $2.4 million in specific projects is in addition to the requested $223,200 in non-specific mains, service, street, and hydrant replacement projects, for a total of $2.6 million in mains, hydrants, and service replacement projects.

CWS declined to provide historical costs for mains, services, hydrants, valves and meters to DRA, despite multiple data requests.[37] CWS also failed to provide any leak history data for main replacement projects it proposes in this rate case. CWS' claimed justification for these projects usually included assertions of either numerous leaks or fire flow improvements as justifications for replacement of these mains, services, and hydrants.

a. **Fireflow:** In terms of fire flow, according to GO 103-A, "The utility shall not be responsible for modifying or replacing at its expense any existing facilities, which are otherwise adequate, in order to provide increased fire flow or duration due to changes in the standards after the initial construction."[38] CWS' replacement of pipe merely to improve fireflow cannot therefore be justified.

b. **Leaks/100 miles of main:** Further, CWS provided the following response to ALJ O'Donnell's request for an exhibit showing CWS' methodology for mains replacement, "CWS annually determines the number of leak for each district on the basis of leaks per one hundred miles of main. This information along with the actual length of targeted mains in a district is used to set the annual target main replacement length." However, when DRA asked for the leaks per one hundred

[37] Appendix B to this report, see non-responsive CWS answers to DRA data requests MD7-016, MD7-017 and NKS-005.

[38] GO 103-A, VI. Fire Protection Standards, 3.Replacement of Mains A.Changes to Fire Code, p.25.

miles of main for projects in this GRC, CWS was unable to provide such information.[39]

c. **Repair vs replacement:** When DRA asked CWS how it concluded a particular targeted main was beyond its "useful life", CWS responded: "In reality, one can extend the "useful life" of many facilities, but the cost to do so may outweigh the cost to replace."[40] However when DRA asked CWS if it did any analysis to show that the cost to repair was higher than the cost to replace for the targeted mains in this general rate case, CWS said it had not done such an analysis.[41]

DRA therefore concludes that CWS is not able to effectively prioritize its specific hydrant, main and service replacement projects based on actual conditions of the pipe and through the use of tools such as AWWA's "Decision Support System for Distribution System Piping Renewal," which have been available since 2002.[42] DRA notes that other utilities, such as California American Water Company, routinely prepare a "Condition Based Assessment" document prepared by a licensed professional engineer to assess the condition of their transmission and distribution systems, in each district to identify and prioritize investment in transmission and distribution infrastructure.[43]

DRA therefore recommends that the Commission:

[39] Appendix B to this report, CWS response to DRA data request NKS-006, question 7.
[40] Appendix B to this report, CWS response to DRA data request NKS-002, question 11.
[41] Appendix B to this report, CWS response to DRA data request NKS-002, question 8.
[42] Appendix B to this report, CWS response to DRA data request NKS-002, question 12. CWS replied it had not used this or a similar tool to evaluate its mains targeted for replacement in this general rate case.
[43] For example, in A.08-01-027, Cal Am conducted a condition-based assessment of its infrastructure for its Monterey district, and prioritized its proposals in that rate case based on the condition of the infrastructure.

1) Disallow the specific main, hydrant and services replacement projects i.e. a total of $2.4 million.

2) Allow the adjusted[44] non-specific budget in the amount of $203,400 for mains, service, street and hydrant projects to cover any repairs or unforeseen circumstances.

3) Direct CWS to develop a "condition-based assessment" prepared by a licensed professional engineer including a prioritization plan, a comparison of the cost to repair versus replacement, and an analysis of leaks/100 miles to justify its main replacement programs in future rate cases.

3) Projects 20679 - Pump Replacement at Station 7

CWS budgets $74,500 for project 20679 in 2010 to replace a well pump at station 7 and add energy monitoring equipment. CWS claims that the pump replacement is necessary due to low efficiency operation and in order to increase reliability.

DRA maintains that pumps and motors should only be replaced when efficiency tests and cost savings estimates provide reasonable justification for their replacement. The following table from Standard Practice U-3-SM shows the

[44] Non-specific capital budgets have been adjusted for DRA's inflation forecast as discussed at the end of the chapter.

Commission metrics for pump efficiency ranges:[45]

Table One: Pump Efficiency Ranges—Percent Wire to Water (from Case No. 10114)

Motor HP	Poor	Fair	Good	Excellent
3-5	41.9 or less	42-49.9	50-54.9	55 or above
7.5-10	44.9 or less	45-52.9	53-57.9	58 or above
15-30	47.9 or less	48-55.9	56-60.9	61 or above
40-60	52.9 or less	53.59.9	60-64.9	65 or above
75 and above	55.9 or less	56-62.9	63-68.9	69 or above

For well pump 7-01, the most recent pump test showed an efficiency of 53.8% which translates to a CPUC rating of "Fair." CWS did not provide any specific cost savings that would result from pump replacement at this well site. Since the pump test results did not identify this pump as deficient and CWS provided no estimates of cost savings, DRA recommends disallowing this project.

CWS proposes installing energy monitoring equipment such as power meters, flow meters and pressure recording transducers to more accurately measure the real-time energy consumption at well stations in the Willows District. DRA supports a pilot study of the energy monitoring program in the Marysville District to properly identify the implementation costs and operational benefits of having highly accurate and fine-scaled information on the unit costs (in both dollars and kWh) of water supply. DRA believes that a pilot program in the Marysville District is appropriate after CWS informed DRA that most of the capital infrastructure was already in place in this district, thus requiring little new capital additions. Since the operational efficiency benefits are highly uncertain, a pilot program would allow quantification before a company-wide program is launched.[46]

[45] Standard Practice U-3-SM, http://docs.cpuc.ca.gov/word_pdf/REPORT/83111.pdf.

[46] In this GRC, CWS budgeted $3.7 million for the energy monitoring program on a company-wide basis.

4) Projects 17197, 20922, 20972, 20987 - Flat to Meter Conversion

CWS budgets $62,900 in 2009, and $33,400 each in 2010, 2011 and 2012 capital additions to convert 45 flat rate service customers per year to metered service. DRA agrees with the need to convert flat rate customers to metered connections to encourage conservation and comply with state law by 2025. Based upon cost data that CWS provided to DRA regarding actual costs incurred to date, DRA believes these projects should be handled through the advice letter process. According to data request responses, in Marysville, average meter conversion costs have been $636 per connection (including new service lines) during 2007-2009 which is $28,630 for every 45 conversions. Therefore, DRA recommends that CWS file an annual Tier 2 advice letter with a cap of $33,400 during 2009-2012 to meet its flat to meter conversion goals.[47]

5) Project 21141– Interstate 5 Main Crossing

CWS budgets $1.15 million in 2011 and 2012 capital additions to design and install 300 feet of 12" ductile iron jack and bore main underneath Interstate 5. CWS states that this project is necessary to provide a second connection to the new storage tank and pumping station that is being constructed adjacent to the Wal-Mart store and to "create redundancy." CWS will also be requesting an unknown amount of additional funds in 2013 to install the remaining 2,000 feet of main required to complete the redundant connection to the existing distribution system.[48]

[47] CWS spent less than $30,000 during 2009 for the flat to meter conversion program in the Willlows District according to its response to DRA data request MD7-005, Attachment 1. See Appendix B to this report.

[48] Final Application A.09-07-001, project 21141 justification.

DRA does not agree with the need for this project. CWS has provided no evidence for the likelihood of a catastrophic main failure in the existing main connection that could not be repaired in a timely fashion. In fact, CWS provided no leak history when DRA requested leak data on the Willows system, and has provided no documentation of leaks on the existing main connection that crosses Interstate 5. CWS cannot quantify what additional costs will be needed in the next rate case cycle to complete this project, further complicating matters. DRA strongly objects to creating duplicate distribution systems especially when the existing system has no history of failure. Finally, although the WS&FMP recommends this capital project, it based this recommendation on faulty design and planning criteria such as maintaining a pressure of 40 psi during Peak Hour Demand ("PHD") conditions.

The WS&FMP argues that 40 psi is the minimum standard for PHD according to GO 103-A. However, DRA verified that during hours of peak demand, GO 103-A only requires 30 psi at service connections.[49]

> "Each potable water distribution system shall be operated in a manner to assure that the minimum operating pressure at each service connection throughout the distribution system is not less than 40 psi nor more than 125 psi, **except that during periods near PHD the pressure may not be less than 30 psi** and that during periods of hourly minimum demand the pressure may be not more than 150 psi."

Since the entire Willows District maintained a minimum pressure of at least 34 psi during the PHD model simulation, there is no deficiency in pressure that would require installing new mains. In addition, the PHD simulation assumed wells 9-01 and 5-01 were offline, an unreasonable and unsupported assumption for

[49] GO 103-A. 6A. Variations in Pressure, p. 30.

a hydraulic analysis. The California Department of Public Health ("CDPH") states that systems supplied by groundwater only should be able to meet maximum day demand ("MDD"), not PHD, with the largest source of supply off-line, not the two largest sources.[50] The Willows district has 5.5 MGD of firm capacity assuming the largest producing well,[51] is off-line, far more than its existing MDD of 3.6 MGD. The district has a total of 6.8 MGD of total groundwater capacity which is more than sufficient to meet its current PHD of 5.4 MGD.[52] In the case of an emergency situation, the district has 4.1 MGD of well source capacity that is powered by backup power generators, enough to easily meet MDD conditions.[53]

The WS&FMP has misconstrued the relevant pumping, water supply and pressure design requirements to a significant degree. CWS' claim that a new redundant main is needed to distribute water from the new storage tank is unfounded. DRA has removed the capital costs associated with this project from 2011 and 2012 plant additions.

6) Project 20953 – Zone Test Repair at Station 6

CWS budgets $179,800 in 2011 capital additions to conduct zone testing repair work at well station 6. CWS states that if the zone testing diagnostics at the well site indicate that aquifers producing high nitrate levels can be isolated this project will proceed in 2011 to perform the well modifications. Since this project is of an uncertain nature depending upon the results of project 20879, DRA recommends that this project be approved with advice letter treatment with a cap of $179,800 in year 2011.

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[50] CDPH, Drinking Water Regulations, Title 22, Chapter 16, Article 2, §64554. New and Existing Source Capacity (c).

[51] Based upon the most recent pump test data as shown in the WS&FMP, Chapter 7.

[52] Willows WS&FMP, p. 8-1.

[53] Ibid, at p.7-1,2.

7) Non-specific Capital Budgets, 2009 to 2012

CWS proposes $65,200, $66,600, $68,100, and $69,700, respectively in plant additions for non-specifics in the four years from 2009 to 2012. CWS non-specific estimates are based on a 10-year average with a 2% yearly escalation factor. DRA agrees with using the 10-year average, but uses escalation factors for 2009 through 2012 from the May 2009 Energy Cost of Service Branch escalation factors memo. These factors are: 2009 = (5.5)%; 2010 = (0.1)%; 2011 = 2.0%; 2012 = 2.7%. Using these escalation factors the non-specific estimates are $60,400, $60,400, $61,700, and $63,300 for 2009, 2010, 2011, and 2012, respectively.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Plant in Service as shown in Table 7-1 and Table 7-2.

1

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	6,602.1	10,079.4	3,477.3	52.7%
Additions				
Gross Additions	318.0	974.1	656.1	206.3%
Capitalized Interest	7.7	23.7	16.0	207.8%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(39.3)	(39.3)	0.0	0.0%
Net Additions	286.4	958.5	672.1	234.7%
Adjustments				
Gen. Plant allocated to contracts	(0.3)	(0.3)	0.0	0.0%
Historic Capitalized Interest	(6.2)	(6.2)	0.0	0.0%
Plant in Service - EOY	6,888.5	11,038.0	4,149.5	60.2%
Weighting Factor	18.3%	18.3%		
Wtd. Avg. Plant in Service	6,647.9	10,248.1	3,600.1	54.2%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Plant in Service - BOY	6,888.5	11,038.0	4,149.5	60.2%
	Additions				
	Gross Additions	277.2	1,322.5	1,045.3	377.1%
	Capitalized Interest	5.9	31.5	25.6	433.9%
	Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
	Retirements	(58.3)	(58.3)	0.0	0.0%
	Net Additions	224.8	1,295.7	1070.9	476.4%
	Adjustments				
	Gen. Plant allocated to contractors	(0.3)	(0.3)	0.0	0.0%
	Historic Capitalized Interest	(5.9)	(5.9)	0.0	0.0%
	Plant in Service - EOY	7,113.3	12,333.7	5,220.4	73.4%
	Weighting Factor	18.3%	18.3%		
1	Wtd. Avg. Plant in Service	6,923.4	11,268.6	4,345.2	62.8%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendation on Depreciation for CWS' Willows District. Tables 8-1 and 8-2 show weighted average accumulated depreciation and amortization for Test Year 2011 and Escalation Year 2012.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and CWS' estimates are the result of different plant additions for the Test Year and the Escalation Year. These differences are discussed in Chapter 7, Plant in Service.

C. DISCUSSION

CWS' depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Willows District increases by 0.58% (from 2.63% to 3.21%) and 0.59% (from 2.60% to 3.19%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[54]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study the CWS estimates of implicit composite depreciation rates are 3.21% for Test Year 2011 and 3.19% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are also 3.21% for Test Year 2011 and 3.19% for Escalation Year 2012.[55]

D. CONCLUSION

DRA reviewed and accepts the methodologies outlined in CWS' Depreciation Study. DRA recommends an audit of CWS' Depreciation Study in the next GRC.

DRA recommends that the Commission adopt DRA's adjusted numbers for depreciation.

[54] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[55] Composite Depreciation Rates can be found in Workpaper 9-B2.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	2,428.3	2,446.4	18.1	0.7%
Accruals				
Transportation Equipment	5.2	3.2	(2.0)	-38.5%
Contributed Plant	14.6	13.2	(1.4)	-9.6%
Allocated non-reg contracts	0.4	0.3	(0.1)	-25.0%
Other Plant in Service	190.6	256.5	65.9	34.6%
Total Accruals	210.8	273.2	62.4	29.6%
Retirements	(44.0)	(44.0)	0.0	0.0%
Depreciation Reserve - EOY	2,580.5	2,662.4	81.9	3.2%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	2,504.4	2,554.4	50.0	2.0%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	2,580.5	2,662.3	81.8	3.2%
	Accruals				
	Transportation Equipment	5.2	3.2	(2.0)	-38.5%
	Contributed Plant	14.8	13.3	(1.5)	-10.1%
	Allocated non-reg contracts	0.1	0.0	(0.1)	-100.0%
	Other Plant in Service	198.3	280.6	82.3	41.5%
	Total Accruals	218.4	297.1	78.7	36.0%
	Retirements	(60.1)	(60.1)	0.0	0.0%
	Depreciation Reserve - EOY	2,738.8	2,899.3	160.5	5.9%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	2,652.3	2,774.1	121.8	4.6%

CHAPTER 9: RATEBASE

A. INTRODUCTION

DRA and CWS' estimates for Rate Base for Test Year 2011 and Escalation Year 2012 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adoption of its estimates for: Plant in Service, Depreciation Reserve, and Rate Base.

C. DISCUSSION

Tables 9-1 & 9-2 show DRA's and CWS' estimates of Rate Base for Test Year 2011 and Escalation Year 2012. The significant differences between the Rate Base developed by DRA and CWS are due to the differences in the estimates for Weighted Average Plant in Service, Depreciation, Working Cash, and General Office Allocation.

D. NET-TO-GROSS MULTIPLIER

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. Both DRA and CWS have calculated three multipliers which reflect: 1) the increase required under 100% equity-financing where State and Federal taxes are incurred; 2) the increase required under 100% debt financing where taxes are not incurred (identical to the increase necessary to offset expenses); and 3) the increase required for additions to ratebase, which incorporates the capital structure and financing costs of the utility.[56]

[56] As adopted in Commission Decision 09-05-019

DRA and CWS use similar methodologies in calculating the net-to-gross multipliers. Calculations are shown in Table 9-3 and results are presented below. In the calculations, DRA corrected a formula error in CWS' calculation of Federal Income Taxes to properly account for the State Tax and Domestic Production Activities Deductions.

California Water Service Company
WILLOWS
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.72734**	**1.64750**
100% Debt (expense)	**1.02352**	**1.02352**
Ratebase Additions	**1.39922**	**1.35660**

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Serv.	6,647.9	10,248.1	3,600.1	54.2%
Materials & Supplies	28.6	28.6	0.0	0.0%
Working Cash - Lead-Lag	56.2	58.7	2.5	4.5%
Amt withheld from Employees	(0.6)	(0.6)	0.0	0.0%
Wtd. Avg. Depr. Res.	(2,504.4)	(2,554.4)	(50.0)	2.0%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	1,788.3	1,788.3	0.0	0.0%
Contributions	284.9	285.4	0.5	0.2%
Reserved Amort.Intangibles	0.0	22.5	22.5	0.0%
Deferred Taxes	501.8	501.8	0.0	0.0%
Unamortized ITC	9.0	9.0	0.0	0.0%
General Office Alloc	141.0	209.8	68.8	48.8%
Taxes on - Advances	92.0	92.0	0.0	0.0%
Taxes on - CIAC	20.6	20.6	0.0	0.0%
Average Rate Base	1,897.3	5,495.8	3,598.5	189.7%
Interest Calculation:				
Avg Rate Base	1,897.3	5,409.1	3,511.8	185.1%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	60.0	170.9	111.0	185.1%
less Cap. Interest	0.0	0.0	0.0	0.0%
Net Interest Expense	60.0	170.9	111.0	185.1%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd.Avg. Plant in Service	6,923.4	11,268.6	4,345.2	62.8%
Material & Supplies	28.6	28.6	0.0	0.0%
Working Cash - Lead-Lag	39.0	63.2	24.2	61.9%
Amt withheld from Employees	(0.6)	(0.6)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(2,652.3)	(2,774.1)	(121.8)	4.6%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	1,922.5	1,922.5	0.0	0.0%
Contributions	280.5	282.4	1.9	0.7%
Reserved Amort.Intangibles	0.0	37.5	37.5	0.0%
Deferred Taxes	561.9	561.9	0.0	0.0%
Unamortized ITC	8.5	8.5	0.0	0.0%
General Office Alloc	122.7	203.5	80.8	65.9%
Taxes on - Advances	72.6	72.6	0.0	0.0%
Taxes on - CIAC	17.2	17.2	0.0	0.0%
Average Rate Base	1,777.3	6,066.2	4,289.0	241.3%
Interest Calculation:				
Avg Rate Base	1,777.3	5,975.0	4,197.8	236.2%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	56.2	188.8	132.6	236.2%
less Cap. Interest	0.0	0.0	0.0	0.0%
1 Net Interest Expense	56.2	188.8	132.6	236.2%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.50815%	0.50815%
2) 1-Uncoll (100%-line 1)	99.49185%	99.49185%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	1.79900%	1.79900%
6) Business license (line 5*line 2)	1.78986%	1.78986%
7) Subtotal (line 1+line 4+line 6)	2.29801%	2.29801%
8) 1-Subtotal (100%-line7)	97.70199%	97.70199%
9) CCFT (line 8 * 8.84%)	8.63686%	8.63686%
10) Domestic Production Activities Deduction *	8.01586%	0.00000%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	28.36725%	31.17280%
12) Total taxes paid (ln 7+ln 9+ln 10)	39.30211%	42.10766%
13) Net after taxes (1-line 11)	60.69789%	57.89234%

Net-to-Gross Multiplier (1/line 12) = 1.64750 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.72734 (Utility)

* DRA - Line 8 minus Line 9 mulitplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue
attributable to rate of return changes only and not to be used for rate base offsets.
The net-to-gross for rate base offsets is much lower because the interest payments
1 for the debt portion of rate base increase is tax deductible.

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed California Water Service Company's ("CWS'") filing, responses to DRA data requests, and data obtained from the Commission's Consumer Affairs Branch regarding customer complaints in the Willows District.

B. SUMMARY OF RECOMMENDATIONS

DRA finds CWS' customer service record satisfactory and the customer service process reasonable.

C. DISCUSSION

1) Customer calls and complaints

The Willows District office handled an average of 2,000 calls per year in the last 3 years. The customer service representatives ("CSR") in the district office handle all customer complaint calls. When a customer calls the district office, the CSR logs the date and time of the call along with a description of the complaint into the Customer Service Information system. The majority of customer complaints are resolved the same day they are received. Billing questions make up a large portion of the calls received by the district office. The CSR tries to resolve the billing issue directly. However, if a resolution can not be reached, the Customer Services Manager in each district is empowered to make billing adjustments as needed.

All customer complaints filed with the Commission are submitted to the CWS rates department and follow a different procedure than described above. The rates department contacts the district office to inform them of the complaint with the goal of resolving the issue within 7 days. The district office researches the complaint, contacts the customer to inform them of the investigations findings and works to reach a resolution. Then the district office submits its findings and

resolution to CWS' rates department for review. CWS' rates department then contacts the Commission's Division of Water and Audits or the Consumer Affairs branch to present the complaint findings. There have been no complaints filed by customers with the Commission since the last GRC.

2) Water Quality complaints

CWS' records indicate that the number of water quality complaints have been low relative to the number of customers in the Willows District. An effective system is in place to receive and record customer complaints concerning water quality. Customer complaints regarding taste and odor are handled by a CSR who explains to the customer why those types of conditions occur. Other types of complaints, such as low pressure or the presence of sand in the water, require a serviceman to go out to the premises and investigate the complaint. When a service call is required, the CSR notifies the maintenance department. CWS assigns personnel to investigate the problem, notify the customer, and resolve the issue. The majority of these complaints are resolved by inspecting the premises. CWS tracks all water quality complaints in their system and records them on a monthly summary report.

Table 10-A tracks water quality customer complaint data for the last three years. There are six categories for the different kinds of water quality complaints. These categories are defined as:

- Air - can be air trapped in water causing a milky appearance which goes away when allowed to stand and the air goes to the surface;
- Dirty - can be discolored water or sand in the water from mainline flushing or a main break in the area;
- Noise - can be associated with the water system, such as wells turning on, or the customer's internal plumbing;
- Pressure - can be too high or too low; and

- Taste or odor - can be stronger than usual from chlorine, or a musty odor the customer is not accustomed to.

Table 10-A

Willows District Customer Water Quality Complaints			
Type	2006	2007	2008
Air	1	1	2
Dirty water	2	1	0
Noise	0	0	0
Pressure	7	4	10
Sand	1	1	0
Taste/Odor	0	1	0
Total	11	8	12
Number of Customers	2,324	2,341	2,342
Total as % of Customers	0.5%	0.3%	0.5%

There were 21 pressure complaints over the past three years. CWS' crews investigated all of these complaints. In most of the cases, CWS determined that the customer had plumbing issues, such as service lines clogged, or leaking pipes, or house valves not fully opened. Pressure complaints can also be related to main leaks, or when a repair is done on a main and sections of the distribution system have to be isolated causing pressure to the home to be higher or lower than the customer is accustomed to.

D. CONCLUSION

DRA recommends the Commission find CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

In this GRC application (09-07-001), CWS requested changes to the non-residential rate design in Special Request #6, and requested changes to the residential rate design in Special Request #11. Thus, the scope of this chapter is limited to recommendations regarding:

1) The Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts ("WRAM/MCBA"),[57]
2) Impacts of the conservation rate designs to date
3) Impacts on Low Income customer disconnections, and
4) Low income rate assistance surcharges

B. SUMMARY OF RECOMMENDATIONS

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

DRA recommends that the Commission require CWS to modify the WRAM/MCBA so that it does not disproportionately disadvantage ratepayers compared to shareholders. The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that if there are reductions in consumption, ratepayers and shareholders should split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA surcredits should be a flat amount applied to the service charge

When there is a combined over-collection in the WRAM/MCBA, the over-collection should be passed on to ratepayers through a flat surcredit on the service

[57] Other than recommendations regarding WRAM/MCBA in DRA's special request chapters.

charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. This will enhance the conservation price signal.

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

This GRC application from CWS contains six months of consumption data after CWS implemented the rate design and WRAM/MCBA mechanism Trial Programs. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs. The Commission should evaluate the impacts of the conservation rate designs in CWS' next GRC.

3) The Commission should require CWS to monitor disconnections by month and communicate payment options to customers

The Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month. If the number of disconnections has increased, CWS should develop a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging in customers' bills and on its website explaining to customers the options that are available to them if they cannot pay their bills.

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue to provide the benefit to qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[58] DRA supports an increase in the surcharge to support the forecasted participation levels in the LIRA program.

C. DISCUSSION

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

When the Commission adopted the WRAM/MCBA decoupling mechanism for CWS, the concept of the mechanism was to ensure a proportional impact on the utility and ratepayers when CWS implemented conservation rates. DRA's settlement with CWS, adopted in D.08-02-036 states:

> "Parties agree that the desired outcome and purpose of using WRAMs and MCBAs is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
>
> a. In the context of this agreement, a proportional impact means that, if consumption is over or under the forecasted level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefit, at the expense of the other party."[59]

Since it is too early to evaluate quantitative usage data on the impacts of the conservation rate designs,[60] it is difficult to determine how much sales have

[58] Report on the Results of Operation, July 1, 2009.

[59] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[60] At the time CWS filed this GRC, there were only six months of usage data after implementation of the WRAM/MCBA and rate design Trial Programs, and CWS did not provide an analysis of this usage information to determine whether the utility and ratepayers are

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decreased due to the effects of conservation oriented rates. But it is unreasonable to assume that all recorded decrease in sales was entirely due to conservation oriented rates and conservation programming, as it is certain that some portion of the decrease was due to the economic downturn and other factors. Yet, as a result of the WRAM/MCBA, ratepayers are currently bearing the full cost of the economic downturn. This issue must be addressed immediately. Therefore, until the impacts of conservation efforts can be better quantified, DRA recommends that the Commission modify the WRAM so that if there are reductions in consumption, rather than ratepayers being required to pay the full difference between the authorized quantity revenue and actual quantity revenue, ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected under the WRAM/MCBA decoupling mechanism, when conservation rates are implemented in accordance with the settlement.[61]

This issue should be examined in the next GRC, when over three years of consumption information will be available after the implementation of the WRAM/MCBAs and conservation rates. However, it is clear at this time that the WRAM/MCBA mechanisms have led to an unintended consequence: the WRAM shields shareholders from all financial consequences of the severe economic downturn, while ratepayers bear the full cost of the economic downturn. This is an unintended consequence of the WRAM/MCBA trial program, not one of the goals of the program.[62]

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proportionally affected when conservation rates were implemented.

[61] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[62] The goals of the WRAM/MCBA mechanism trial program were three-fold:

a)"Sever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs

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While there is not currently a method available to apportion reductions in usage to each different cause – such as conservation and changes in economic conditions, it is clear that there are different factors that can affect water usage and each of them contribute to usage reductions. This is contrary to the WRAM/MCBA, which compensates CWS for all of the reductions in consumption, not just usage reductions from conservation. The Commission should modify the WRAM/MCBA mechanism so that it does not disproportionately disadvantage ratepayers compared to shareholders.

Further, the Commission specifically addressed the possible impact of a WRAM/MCBA for California American Water Company during an economic downturn in decision 08-06-002, p. 16, which stated:

> "One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed."

CWS tracks sales levels by customer class and service area; and it is possible to calculate and graph changes in consumption in different classes and service areas. However, it is much more complex to determine or even speculate about the reasons for the changes in consumption. Especially because of the

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b)Ensure cost savings resulting from conservation are passed on to ratepayers.

c)Reduce overall water consumption by Cal Water ratepayers." (see the Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 8, section VI.1. Filed June 15, 2007, adopted in Decision 08-02-036).

significant economic downturn in recent years, that happens to coincide with implementation of increasing block rates, makes it difficult to draw conclusions about the reasons for any changing consumption patterns. Also, all CWS' districts undercollected revenue in the WRAM account during July – December 2008, except Bakersfield, King City, and Palos Verdes.[63] This is an indication that sales were lower than forecasted for almost all districts during this timeframe.

The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA Surcredits Should Be a Flat Amount Applied to the Service Charge

When there is a combined under-collection in the WRAM/MCBA, this should be recovered from ratepayers through volumetric surcharges, in accordance with Decision 08-02-036. This maintains the conservation price signals of the surcharge because customers who use more water pay a larger portion of the surcharge. However, when there is a combined over-collection in the WRAM/MCBA, this should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. Furthermore, this will also enhance the conservation price signal.

This recommendation is important in light of the first six months of WRAM/MCBA and Rate Design Trial Program implementation where the over and under-collections in the net balance of the WRAM/MCBA typically were far

[63] CWS WRAM/MCBA report to the Division of Water and Audits, March 2009

greater than the 2.5%[64] trigger. In fact these balances were 10% or greater in seven districts, and were between 5% and 10% in another seven districts.[65]

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

DRA and CWS reached a settlement agreement on rate design and revenue decoupling on April 23, 2007, and amended the settlement on June 15, 2007. The Commission ultimately adopted the settlement on February 28, 2008 in decision 08-02-036, and CWS had 90 days after the Commission decision adopting the settlement before the Trial Program became effective. CWS implemented the Trial Program, including the WRAM/MCBAs and conservation rate designs, via Advice Letter 1855, which became effective on July 1, 2008. CWS filed this GRC application in July 2009, and included data through December 2008. Thus, this GRC contains six months of consumption data after CWS implemented the WRAM/MCBA mechanisms. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs.[66]

3) CWS should track low income disconnections on a monthly basis and provide this information in its annual report to the Commission on the WRAM/MCBA balances

Ordering Paragraph 6 from the Phase 1A Decision 08-02-036 from the conservation OII (I.07-01-022) ("OP6") requires CWS to provide data related to the implementation of the conservation rate design trial programs. Specifically, OP6 states:

> "6. Suburban, Park, and CalWater shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing

[64] The trigger is "2.5% of the district's total recorded revenue requirement for the prior calendar year" (see Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, Section IX 3) d., Filed June 15, 2007, adopted in Decision 08-02-036.

[65] See CWS WRAM/MCBA report to the Division of Water and Audits, March 2009.

[66] See Special Request #11 for further discussion.

cycle) … increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs…."

In this GRC application, CWS provided some of the information required in this Ordering Paragraph.[67] In particular, CWS provided information on customer disconnections for both residential and LIRA customer groups for the firs six months of Trial Program implementation between July 1, 2008 and December 31, 2008. However, this data incorrectly "double-counted" low income customer disconnections.[68] CWS provided corrected data for July 2008 through July 2009. However, CWS did not yet provide information about customer disconnections prior to July 2008.[69] In order for the Commission to assess the "increase or decrease" in low-income disconnections when CWS implemented the conservation rate design and WRAM/MCBA Trial Programs, pursuant to the above Ordering Paragraph, data on customer disconnections from before and after the implementation of the conservation rate designs must be compared. Since CWS only provided information from after the implementation of conservation

[67] Prepared Testimony of David Morse, p. 28 – 31.

[68] Email from CWS (Tu Rash), on 1/13/2010, states regarding the query Cal Water originally ran for Dave Morse "in effect that query double counted the number of LIRA customers."

[69] DRA requested information on residential and LIRA customer disconnections from July 2007 through July 2009 in LWA-5 on 12/22/09, and CWS provided an initial response on 12/31/09, but it did not correspond to the numbers in David Morse' testimony, so CWS provided a revised response on 1/5/2010, but this still did not correspond to the numbers in David Morse' testimony. CWS provided a further revised response on 1/13/2010, but this only provided data from 2008-2009. At the time DRA had to finalize this testimony, it had not yet received final numbers for residential and LIRA customer disconnections from July 2007 through 2009, although DRA is confident CWS would have provided the information to comply with this ordering paragraph had there been unlimited time.

rate designs, this is not in compliance with OP 6. DRA believes CWS intended to provide the correct information and CWS should provide this information in its rebuttal testimony so that the Commission can consider it in this proceeding.

On a going forward basis, the Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month and report this information in the annual report that CWS submits to the Commission by March 31 each year regarding WRAM/MCBA balances.[70] If the number of disconnections has increased, CWS should develop and implement a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging on customer bills and on CWS' website explaining to customers the options that are available to them if they cannot pay their bills. For example, PG&E has a message on its website that says:

> "We Know Times Are Tough.
> If you or someone you know is having trouble paying your bill, we can help. Please call us today at 1-800-743-5000 so we can discuss program options and payment arrangements that work for you."[71]

Another example is San Diego Gas and Electric Company, which has messaging on its website that provides a rotational link to "Need Extra Help With Your Bill? Learn about available assistance" and "Get extra help with your bill."[72]

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue the benefit for qualifying customers

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[70] Pursuant to "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues," section IX 3), Filed June 15, 2007, adopted in Decision 08-02-036.

[71] http://www.pge.com/myhome/ (accessed 1/28/2010).

[72] http://www.sdge.com/index/ (accessed 1/28/2010).

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[73] The Commission authorized the LIRA program in D.06-11-053, and it provides a 50% discount on the service charge to qualifying households. DRA supports the continuation of the LIRA program as authorized in D.06-11-053. To the extent that an increase in the surcharge is necessary to support the LIRA program at forecasted participation levels, the Commission should authorize the increase in the surcharge. DRA notes that this surcharge is combined with the surcharge for the Rate Support Fund ("RSF") and that CWS' requested increase from $0.009 to $0.015 per ccf[74] also includes the additional funding to support CWS' increases in the RSF subsidies. For this reason, the required increase in the surcharge to support only the LIRA program should be lower than $0.015 per ccf and should be calculated based upon the final revenue requirement in this case as well as the adopted rate of participation in the LIRA program.

D. CONCLUSION

The Commission should adopt the recommendations on rate design and revenue decoupling included in this chapter.

[73] Report on the Results of Operation, July 1, 2009, Chapter 12 "Present and Requested Tariffs" states that customers pay a surcharge of $0.009 per Ccf to fund the program and that CWS proposes to increase the surcharge to $0.015 per Ccf.

[74] Additional Prepared Testimony of Thomas Smegal, Special Request 11, p. 15, lines 21-22.

CHAPTER 12: WATER QUALITY

A. INTRODUCTION

The Rate Case Plan requires water utilities to submit information about water quality in their GRC applications. This Chapter presents DRA's review of water quality submittals by California Water Service Company ("CWS") for the Willows District and CWS' response to DRA's data request.

The California Department of Public Health ("CDPH") is the primary agency responsible for ensuring that the water provided to the public by the District is safe for consumption. DRA solicited and received the CDPH's input regarding the District's water quality issues and compliance status.

B. SUMMARY OF RECOMMENDATIONS

Based upon the information provided by the company and by the CDPH, CWS' Willows District appears to be in compliance with all applicable water quality standards and requirements. Exceptions if any are noted below.

C. DISCUSSION

The Willows District has six active groundwater wells. The District has not exceeded any primary or secondary Maximum Contaminant Levels ("MCLs") since the last general rate review. However, CWS reports that the District has nitrate and chromium contamination in all of its wells (except for Well 05-01 where chromium is not detected.)

Other than continuous disinfection at all active wells and sand separators at Wells 004-01 and Well 009-01, there is no other water quality treatment currently installed in the system.

CWS reports that it has placed Well 002-01 on standby status due to increasing nitrate levels (currently at 30 mg/L; MCL is 45mg/L) and a lack of demand for the source.

Well 006-01 has increasing nitrate levels (currently at 25 mg/L) and is an active well. Based on current trends, CWS estimates that treatment will be needed sometime between 2012 and 2014.[75]

The CDPH, in response to DRA's inquiry, confirms that the District is in compliance with all applicable water standards.[76]

D. CONCLUSION

Based on the information reviewed, it appears that CWS' Willows District is in compliance with all applicable water quality standards and requirements.

[75] CWS' response to DRA's data request PPM-001, Item 14.a.

[76] November 30, 2009 email from Richard Hinrichs of CDPH to DRA.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 1, 2011, the Commission shall authorize CWS to file a Tier 1 advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2012 or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2011, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-B.

The Commission's Water Division ("Water Division") should review the requested step rates to determine their conformity with this order, and the requested step rates should go into effect upon the Water Division's determination of compliance. The Water Division should inform the Commission if it finds that the proposed rates do not comply with this Decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2012. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable to expense increases due to inflation and rate base increases that are not offset by revenue increases. The revenue changes shall be calculated by multiplying forecasted inflation rate and operational attrition plus financial attrition times adopted rate base in 2012 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2012 and 2013. To obtain the increases in these years, D. 04-06-018 and D. 07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
WILLOWS DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	1,738.8	1,760.8	1.3%	Esc. Factor
Operation & Maintenance	673.1	690.6	2.6%	1.026
Administrative & General	305.8	313.1	2.4%	1.024
G.O. Prorated Expense	257.6	264.3	2.6%	1.026
Depreciation & Amortization	198.3	203.5	2.6%	1.026
Taxes other than income	74.6	76.5	2.6%	1.026
State Corp. Franchise Tax	8.7	7.2	-16.9%	
Federal Income Tax	68.2	63.4	-7.1%	
Total operating expenses	1,586.3	1,618.6	2.0%	
Net operating revenue	152.5	142.2	-6.8%	
Rate base	1,777.3	1,657.2	-6.8%	
Return on rate base	8.58%	8.58%	0.0%	